



CITY OF HOUSTON

Finance and Administration
Department

Interoffice

Correspondence

To: Lee P. Brown, Mayor
Members of City Council

From: Philip B. Scheps
Director

Date: November 26, 2003

Cc: Sara Culbreth, Acting CAO

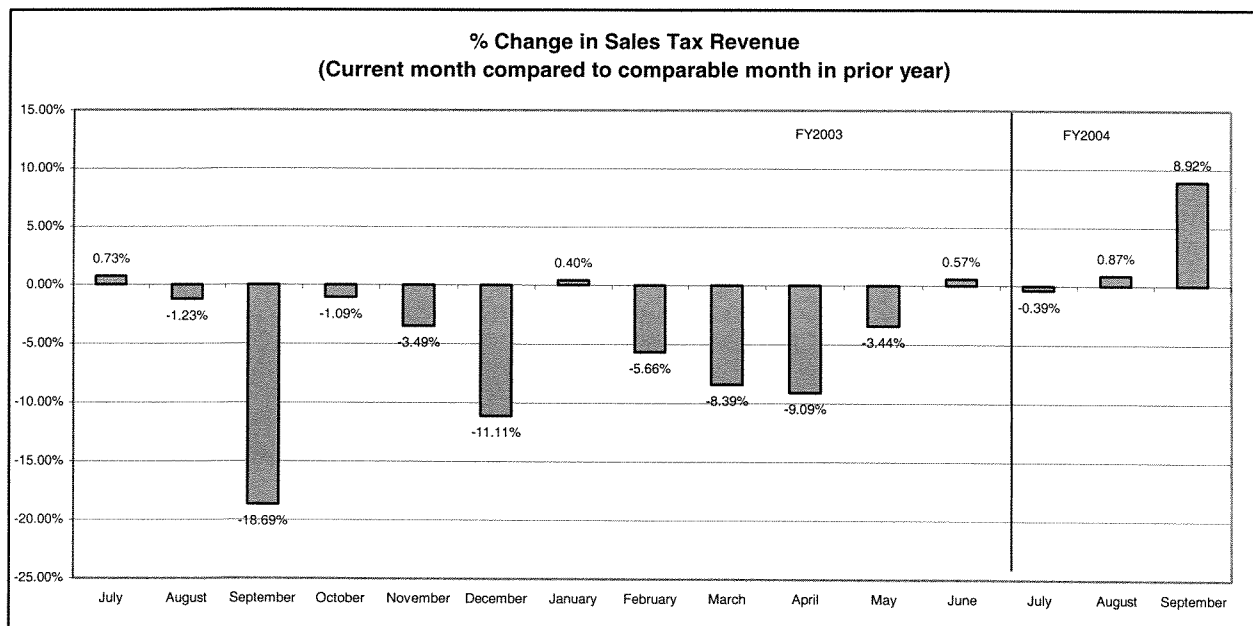
Subject: **OCTOBER MONTHLY FINANCIAL
AND OPERATIONS REPORT**

The purpose of this document is to provide the monthly financial report for the period ending October 31, 2003. This represents the fourth monthly report for the 2004 fiscal year. Accordingly, the FY04 adopted budget numbers are shown, along with preliminary FY03 results, entitled "FY2003 Preliminary CAFR".

Revenues

Total revenues for the fiscal year are being projected by F and A to be \$1.393 billion, which is approximately \$8 million below the adopted budget and a \$2.1 million decrease from the prior monthly report. As described below, the most recent sales tax check reflects confidence in the annual projection. Other changes are discussed below:

Sales Tax - The following chart shows the most recent sales tax check expressed as a year-over-year increase. As shown the most recent check was the largest year-over-year increase since the drop began in early FY03. Despite this good news, the Finance and Administration Department has not raised revenue estimates for FY04, preferring to await additional confirmation.



Telephone Franchise Revenue - The current report revises the revenue estimates downward by \$1.5 million due to deteriorating trend data which may be due to systematic movement from land lines (for which the City receives franchise revenue) to cellular lines (which are unregulated by the City). A recent Federal Communications Commission (FCC) ruling allows consumers to take their landline telephone number and move it to a cellular phone. It is projected that this change will increase the current decline in the number of landlines in use, and have a negative impact on future franchise fee revenues.

Direct Interfund Services - This is a "pass-through" revenue reduction of \$623 thousand for salary recovery in Public Works and Engineering. Including a change incorporated last month, Public Works and Engineering salary recovery revenue has been reduced by a total of \$1.3 million. These reductions in revenue are offset by a corresponding decrease in the department's expenditure projection.

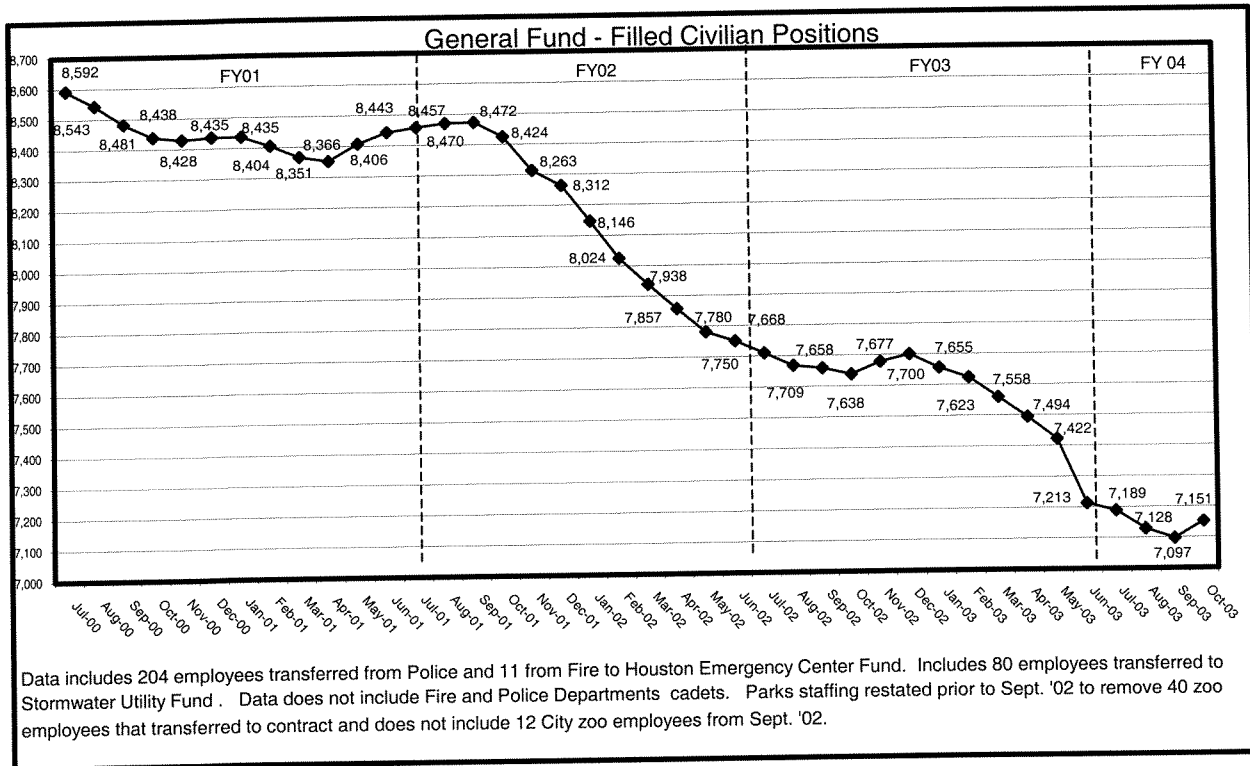
Expenditures

As indicated on page three, F and A's expenditure projections now show departmental savings of \$11.1 million. This savings amount includes a \$1.3 million expenditure reduction in Public Works and Engineering related to salary recovery as mentioned above, as well as \$9.9 million in budget reductions that have been ordered by the Mayor. This includes first quarter personnel savings, a hiring freeze on vacant positions in pay grades 29 and above, and other reductions including delays in opening of new facilities. The General Government expenditure reduction of \$1.5 million for management initiative savings has been removed and is assumed to be incorporated into the savings shown by departments.

General Fund civilian staffing increased slightly in October as shown on the following page. Filled civilian positions at the end of October stood at 7,151, an increase of 54 from the previous month yet a decrease of 1,441 from the peak count in July, 2000.

Fund Balance

The projected fund balance at the end of FY04 is projected to be \$107.6 million, which includes the Rainy Day Fund balance of \$20 million. This amount is approximately \$4.8 million higher than the budgeted ending balance (due largely to the beginning balance for the year being higher than was budgeted) and 8.7% of expenditures less debt service.



Enterprise Funds

For the first four months of FY2004, water and sewer revenues are \$14 million below budgeted revenues, consequently, the revenue projections for water and sewer sales are each being reduced by \$5 million. Even though year-to-date revenues are below projections, they are approximately the same level as last year through October.

Please call me if you have any questions.

Philip B. Scheps